

Message Text

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ACTION EUR-12

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INFO AMEMBASSY BELGRADE

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AMEMBASSY BUCHAREST

AMEMBASSY LONDON

AMEMBASSY MOSCOW

USMISSION NATO

AMEMBASSY PARIS

OECD PARIS

AMEMBASSY PRAGUE

AMEMBASSY ROME

AMEMBASSY SOFIA

AMEMBASSY TOKYO

AMEMBASSY WARSAW

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TAGS: EFIN, ETRD, ENRG, EALP, EINC, UR, COMECON, GW, UK, FR,

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SUBJECT: PROSPECTIVE CEMA INTERNATIONAL INVESTMENT BANK EURODOLLAR
BORROWING

REF: MOSCOW 2685

1. SUMMARY: LOCAL U.S. AND GERMAN BANKERS CONFIRM THAT \$600
MILLION CREDIT IS BEING DEVELOPED FOR INTERNATIONAL INVESTMENT
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BANK TO FINANCE CONSTRUCTION OF NATURAL GAS PIPELINE TO EASTERN
EUROPE. THIS IS A NEW AND SEPARATE CREDIT FROM THE ARRANGEMENT TO

FINANCE SOVIET PURCHASE OF GERMAN PIPE (BONN 00626 AND MOSCOW 0362). CREDITS HAVE MAXIMUM SIX YEARS MATURITY, INTEREST AT 1 1/4-1 3/8 PERCENT ABOVE LIBOR. US OF CREDITS NOT NECESSARILY TIED TO PROJECT. DRESDNER BANK WILL BE AGENT IN TOTAL GROUP OF SOME 13 BANKS; MANAGEMENT DETAILS NOT YET DETERMINED. A NUMBER OF LARGE U.S. BANKS APPEAR INTERESTED IN PARTICIPATING IN THE CREDIT ARRANGEMENT BUT THE OTHER GERMAN LARGE BANKS (DEUTSCHE AND COMMERZ) HAVE DECIDED TO STAY OUT, PRIMARILY--SO THEY SAY--BECAUSE THEY BELIEVE USSR AND EASTERN EUROPEAN COUNTRIES ARE ALREADY HEAVILY EXTENDED IN EXTERNAL BORROWING. END SUMMARY.

2. DRESDNER BANK ANNOUNCED LAST WEEK PLANS TO RAISE A \$600 MILLION CREDIT TO CEMA INTERNATIONAL INVESTMENT BANK. THIS IS THE LARGEST LOAN EVER TO BE NEGOTIATED WITH COMECON BANK. PURPOSE WILL BE TO FINANCE CONSTRUCTION OF A NATURAL GAS PIPELINE FROM THE ORENBURG GAS FIELDS IN THE SOUTHERN URALS TO EASTERN EUROPE, WITH THE TERMINUS POSSIBLY IN HUNGARY. THE PROSPECTIVE CREDIT TO CEMA BANK IS DISTINCT FROM THE FOUR CREDITS ARRANGED BY GERMAN BANKS FOR THE USSR IN THE PERIOD 1969-JANUARY 1976 FOR THE PURCHASE OF PIPE FROM GERMAN SUPPLIES (BONN 00626 AND MOSCOW 0362).

3. A HIGH DRESDNER BANK OFFICERS HAS GIVEN US THE FOLLOWING DETAILS IN CONFIDENCE:

A. CREDIT WILL BE SUCCESSION OF ROLLOVERS. INTEREST RATE WILL BE DETERMINED EACH THREE OR SIX MONTHS, A POINT YET TO BE SETTLED WITH BORROWER. INTEREST RATE WILL BE 1.25 PERCENT ABOVE LIBOR FOR FIRST 42 MONTHS. THEREAFTER RATE RISES TO 1 3/8 PERCENT.

B. FIRST PAYMENT ON PRINCIPAL DUE 42 MONTHS AFTER DRAWING. FINAL PAYMENT MUST BE MADE IN 72 MONTHS.

C. DRAWDOWN PERIOD WILL BE APRIL-SEPTEMBER 1976. (BANK BELIEVES FIRST DRAWING WILL BE IN MAY.) ALTHOUGH CREDITS ARE BEING CONSIDERED AS PROJECT RELATED, BANK ASSUMES THE PAYMENT FOR GOODS FINANCED BY LOAN WILL STRETCH OVER SEVERAL YEARS AND WILL NOT OBJECT IF, IN INTERIM, BORROWERS USE FUNDS TO FINANCE CURRENT ACCOUNT DEFICITS.

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D. FUNDS WILL BE USED PRINCIPALLY TO PURCHASE PIPE, ALSO PUMPS AND MONITORING AND COMMUNICATIONS EQUIPMENT. AS NOT ALL PIPE WILL BE LARGE DIAMETER, BANK ASSUMES PURCHASES WILL BE MADE IN NUMBER OF COUNTRIES, INCLUDING EASTERN EUROPE. OFFICER OF U.S. BANK WHICH HAS DECIDED TO PARTICIPATE IN CREDIT SAYS JAPANESE AND ITALIAN FIRMS ARE ALREADY SEEKING CONTRACTS TO SUPPLY PIPELINE-RELATED EQUIPMENT.

E. DRESDNER BANK WILL BE AGENT BANK. EXPECTS TO BE JOINED BY SOME 13 OTHER BANKS FROM GERMANY, U.S., CANADA, U.K., NETHERLANDS,

AND FRANCE. WHETHER A MANAGEMENT GROUP WILL BE ESTABLISHED HAS NOT YET BEEN DECIDED. PARTICIPANTS WILL LAY OFF SUB-CREDITS TO OTHER BANKS, WITH SECONDARY LAY-OFFS EXPECTED.

4. DRESDNER BANK OFFICER SAYS FRANKLY THAT STRONG U.S. BANK PARTICIPATION IS CONSIDERED ESSENTIAL, OTHERWISE THIS MAJOR CREDIT COULD TEMPORARILY CONSTRICT EUROMARKET. DRESDNER BANK SAYS, AND OFFICERS IN OTHER GERMAN AND U.S. BANKS CONFIRM, THAT U.S. BANKS HAVE KEEN INTEREST IN PARTICIPATING IN THIS CREDIT, EITHER AS INITIAL PARTICIPANTS OR ON LAY-OFF BASIS. U.S. BANKS WERE COOL TO PROPOSED CREDIT WHEN IT WAS FIRST RAISED WITH THEM LATE LAST YEAR, FOR WHAT DRESDNER BANK INTERPRETED AS A MIX OF POLITICAL AND COMMERCIAL REASONS. ACCORDING TO THIS VIEW, IN LATE 1975, U.S. BANKS SEEMED CONCERNED THAT FIGHTING IN ANGOLA MIGHT LEAD TO DETERIORATION OF U.S.-SOVIET RELATIONS, WITH ADVERSE CONSEQUENCES TO COMMERCE. COLLAPSE MORE RAPIDLY THAN EXPECTED ON NON-COMMUNIST FORCES IN ANGOLA AND RECENT STATEMENTS OF U.S. OFFICIALS ON IMPORTANCE OF DETENTE AND WHAT U.S. BANKS CONSIDER TO BE INDICATION OF WARMING ATTITUDE TOWARD MPLA ARE REGARDED AS DIMINISHING POLITICAL ELEMENTS OF FACTORS THAT HAVE TO BE TAKEN INTO ACCOUNT. RE BANKING CONSIDERATIONS, THE PROVISION OF PAYMENT ON PRINCIPAL AFTER THE 42ND MONTH MEANS PARTICIPATING BANKS' MONEY WILL BE TIED UP LESS THAN FIRST EXPECTED. (U.S. BANKS HAD APPARENTLY BELIEVED GRACE PERIOD WOULD BE FIVE YEARS.) ADDITIONAL FACTORS CITED ARE (A) RELATIVELY LATE ENTRY BY U.S. BANKS INTO EE FINANCING AND PERCEIVED NEED TO QUOTE CATCH UP UNQUOTE, (B) U.S. BANKS' ASSESSMENT THAT E-W FINANCING WILL BE MORE PROFITABLE ACTIVITY THAN SOME OTHER EXPORT FINANCING, FOR NEXT SEVERL YEARS, AND (C) AVAILABILITY OF FUNDS IN U.S. FINANCIAL MARKET EVEN AFTER ACCOUNT IS TAKEN OF PICKUP IN U.S. MARKET.

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5. A U.S. BANKER (FROM A BANK WHICH DECIDED NOT TO PARTICIPATE IN THE GROUP) ALSO SAYS THAT AN IMPORTANT ELEMENT FOR U.S. BANKS WAS SOME SORT OF GUARANTEE. THEY UNDERSTAND THAT HERMES IS PREPARED TO EXTEND UP TO 80-PERCENT GUARANTEE AGAINST ECONOMIC RISK AND UP TO 85-PERCENT GUARANTEE AGAINST POLIITICAL RISK ON GERMANY-PROCUREMENT PORTION OF THE CREDIT.

6. VARIOUS LOCAL SOURCES SAY THAT U.S. BANKS INTENDING TO ENTER THIS LOAN ARRANGEMENT ARE CHASE MANHATTAN, BANK OF AMERICA, AND FIRST NATIONAL OF CHICAGO. DRESDNER EXPECTS 3-4 ADDITIONAL U.S. BANK TO JOIN GROUP.

7. ALTHOUGH THE OTHER TWO LEADING GERMAN BANKS, DEUTSCHE AND COMMERZ, WERE INVITED TO JOIN THE GROUP, NEITHER PLANS TO PARTICIPATE. COMMERZ BASES ITS DECISION ON THE SOVIET UNION'S ALREADY HIGH EXTERNAL DEBT POSITION AND THE PROSPECTS FOR ADDITIONAL SOVIET CREDIT NEEDS FOR 1976 AND ONWARD GRAIN PURCHASES FROM

THE WEST. WHILE DEUTSCHE BANK SOURCES DID NOT VOICE PARTICULAR CONCERN OVER THE CREDIT RISK FACTOR AS SUCH, THEY POINTED OUT DEUTSCHE BANK'S EXISTING HIGH INTERNAL LOAN POSITION WITH THE USSR. THE DEUTSCHE BANK OFFICER ADDED THAT, IN CONTRAST TO THE LARGE 1969-76 LOANS FOR GERMAN SUPPLIED PIPE, THE CURRENTLY PROPOSED CREDIT WILL FINANCE GERMAN EXPORTS, TO A MUCH LESSER EXTENT, LEHMANN

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